

Lane County Hospital
A Component Unit of Lane County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018

Lane County Hospital
A Component Unit of Lane County, Kansas
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Lane County Hospital
Dighton, Kansas

We have audited the accompanying financial statements of Lane County Hospital, a component unit of Lane County, Kansas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Lane County Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lane County Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
March 19, 2020

Lane County Hospital
A Component Unit of Lane County, Kansas
Balance Sheets
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 278,198	\$ 137,523
Patient accounts receivable, net of allowance; 2019 – \$151,207; 2018 – \$127,759	884,855	601,935
Estimated amounts due from third-party payers	20,000	223,000
Supplies	64,614	71,892
Prepaid expenses and other	<u>96,181</u>	<u>115,254</u>
Total current assets	<u>1,343,848</u>	<u>1,149,604</u>
 Noncurrent Cash		
Board designated for capital acquisitions	99,126	259,266
Restricted by donors for specific operating activities	<u>9,200</u>	<u>8,013</u>
	<u>108,326</u>	<u>267,279</u>
 Capital Assets, Net	<u>747,677</u>	<u>615,686</u>
 Other Assets	<u>145,380</u>	<u>145,380</u>
Total assets	<u><u>\$ 2,345,231</u></u>	<u><u>\$ 2,177,949</u></u>

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 39,584	\$ 15,688
Accounts payable	130,398	86,903
Accrued salaries and wages	157,362	135,096
Accrued vacation	159,704	147,004
Other accrued expenses	135,942	117,814
	<hr/>	<hr/>
Total current liabilities	622,990	502,505
Long-term Debt	78,138	5,832
	<hr/>	<hr/>
Total liabilities	701,128	508,337
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	629,955	594,166
Restricted - expendable for		
Specific operating activities	9,200	8,013
Unrestricted	1,004,948	1,067,433
	<hr/>	<hr/>
Total net position	1,644,103	1,669,612
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 2,345,231</u>	<u>\$ 2,177,949</u>

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$55,152; 2018 – \$57,909	\$ 4,962,847	\$ 4,718,521
Other	343,300	372,724
Total operating revenues	5,306,147	5,091,245
Operating Expenses		
Salaries and wages	2,632,107	2,588,790
Employee benefits	666,650	700,618
Supplies and other	2,502,764	2,304,707
Depreciation	106,520	109,452
Total operating expenses	5,908,041	5,703,567
Operating Loss	(601,894)	(612,322)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Lane County	549,705	490,643
Interest income	10,041	7,678
Interest expense	(4,178)	(1,759)
Noncapital grants and gifts	20,817	26,893
Impairment gain	-	72,234
Total nonoperating revenues	576,385	595,689
Decrease in Net Position	(25,509)	(16,633)
Net Position, Beginning of Year	1,669,612	1,686,245
Net Position, End of Year	\$ 1,644,103	\$ 1,669,612

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Receipts from and on behalf of patients and third-party payers	\$ 4,882,927	\$ 4,563,488
Payments to suppliers	(3,107,641)	(2,993,650)
Payments to and on behalf of employees	(2,579,013)	(2,640,504)
Other receipts, net	343,300	372,724
Net cash used in operating activities	(460,427)	(697,942)
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Lane County	549,705	490,643
Noncapital grants and gifts	20,817	26,893
Net cash provided by noncapital financing activities	570,522	517,536
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(93,698)	(20,573)
Interest payments on long-term debt	(4,178)	(1,759)
Purchases of capital assets	(40,538)	(49,839)
Insurance proceeds received	-	72,234
Net cash provided by (used in) capital and related financing activities	(138,414)	63
Cash Flows From Investing Activities		
Interest income	10,041	7,678
Net cash provided by investing activities	10,041	7,678
Decrease in Cash	(18,278)	(172,665)
Cash, Beginning of Year	404,802	577,467
Cash, End of Year	\$ 386,524	\$ 404,802
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 278,198	\$ 137,523
Cash in noncurrent cash	108,326	267,279
Total cash	\$ 386,524	\$ 404,802

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (601,894)	\$ (612,322)
Depreciation	106,520	109,452
Provision for uncollectible accounts	55,152	57,909
Changes in operating assets and liabilities		
Patient accounts receivable	(338,072)	(246,900)
Estimated amounts due from and to third-party payers	203,000	33,958
Supplies	7,278	17,519
Prepaid expenses and other	19,073	10,482
Accounts payable and accrued expenses	88,516	(68,040)
Net cash used in operating activities	\$ (460,427)	\$ (697,942)
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 189,900	\$ -
Capital assets acquisitions included in accounts payable	\$ 8,073	\$ -

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Lane County Hospital (Hospital) is an acute care hospital located in Dighton, Kansas. The Hospital is a component unit of Lane County (County) and is governed by an appointed Board of Trustees (Board). The Hospital provides inpatient, outpatient and emergency care services as well as long-term care and clinic services to patients in the Lane County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents.

Lane County Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives.

The following estimated useful lives are being used by the Hospital:

Land improvements	5-50 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the year ended December 31, 2019. Impairment gain of \$72,234 was recognized for a replacement Hospital roof during the year ended December 31, 2018, based on a storm that totaled the Hospital roof. The old Hospital roof had no remaining asset value and the Hospital received \$72,234 in insurance proceeds during 2018.

Lane County Hospital
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Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation and employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Net Position

Net position of the Hospital is classified in three components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Noncapital Appropriations – Lane County

The Hospital received approximately 9% in 2019 and 2018 of its financial support from Lane County property tax levy, sales taxes and miscellaneous appropriations. 100% of tax support is used for operations.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Lane County Hospital
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Notes to Financial Statements
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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2019 and 2018, respectively, \$726,338 and \$179,357 of the Hospital's bank balances of \$976,338 and \$429,857 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 726,338</u>	<u>\$ 179,357</u>

Lane County Hospital
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Notes to Financial Statements
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Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 386,324	\$ 404,602
Petty cash	<u>200</u>	<u>200</u>
	<u>\$ 386,524</u>	<u>\$ 404,802</u>
Included in the following balance sheet captions		
Cash	\$ 278,198	\$ 137,523
Board designated for capital acquisitions	99,126	259,266
Restricted by donors for specific operating activities	<u>9,200</u>	<u>8,013</u>
	<u>\$ 386,524</u>	<u>\$ 404,802</u>

Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 609,497	\$ 388,853
Medicaid	44,174	15,083
Blue Cross	85,203	53,542
Other third-party payers	67,073	52,663
Self-pay	<u>230,115</u>	<u>219,553</u>
	1,036,062	729,694
Less allowance for uncollectible accounts	<u>(151,207)</u>	<u>(127,759)</u>
	<u>\$ 884,855</u>	<u>\$ 601,935</u>

Lane County Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 29,188	\$ -	\$ -	\$ -	\$ 29,188
Land improvements	54,592	-	-	-	54,592
Buildings	2,645,887	189,900	-	-	2,835,787
Fixed equipment	750,814	20,054	-	-	770,868
Major moveable equipment	746,535	6,526	(8,000)	-	745,061
Construction in progress	-	22,031	-	-	22,031
	<u>4,227,016</u>	<u>238,511</u>	<u>(8,000)</u>	<u>-</u>	<u>4,457,527</u>
Less accumulated depreciation					
Land improvements	30,991	3,293	-	-	34,284
Buildings	2,260,289	59,369	-	-	2,319,658
Fixed equipment	621,420	24,955	-	-	646,375
Major moveable equipment	698,630	18,903	(8,000)	-	709,533
	<u>3,611,330</u>	<u>106,520</u>	<u>(8,000)</u>	<u>-</u>	<u>3,709,850</u>
Capital Assets, Net	<u>\$ 615,686</u>	<u>\$ 131,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 747,677</u>

Lane County Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 29,188	\$ -	\$ -	\$ -	\$ 29,188
Land improvements	54,592	-	-	-	54,592
Buildings	2,599,046	49,839	(2,998)	-	2,645,887
Fixed equipment	750,814	-	-	-	750,814
Major moveable equipment	746,535	-	-	-	746,535
	<u>4,180,175</u>	<u>49,839</u>	<u>(2,998)</u>	<u>-</u>	<u>4,227,016</u>
Less accumulated depreciation					
Land improvements	27,698	3,293	-	-	30,991
Buildings	2,207,824	55,463	(2,998)	-	2,260,289
Fixed equipment	596,782	24,638	-	-	621,420
Major moveable equipment	672,572	26,058	-	-	698,630
	<u>3,504,876</u>	<u>109,452</u>	<u>(2,998)</u>	<u>-</u>	<u>3,611,330</u>
Capital Assets, Net	<u>\$ 675,299</u>	<u>\$ (59,613)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 615,686</u>

Note 5: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	\$ 21,520	\$ 189,900	\$ 93,698	\$ 117,722	\$ 39,584	\$ 78,138

	2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	\$ 42,093	\$ -	\$ 20,573	\$ 21,520	\$ 15,688	\$ 5,832

Lane County Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Capital assets include the following property under capital leases at December 31, 2019 and 2018:

	2019	2018
Equipment	\$ 211,641	\$ 108,361
Accumulated depreciation	(25,305)	(92,132)
	\$ 186,336	\$ 16,229

The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 2.50% to 8.00% together with the present value of the future minimum lease payments as of December 31, 2019:

	Year Ending December 31,
2020	\$ 43,613
2021	43,613
2022	39,148
Total minimum lease payments	126,374
Less amount representing interest	8,652
Present value of future minimum lease payments	\$ 117,722

Note 6: Professional Liability Coverage and Claims

The Hospital purchases professional liability insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Lane County Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

Note 7: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 82% and 81% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$4,000 and \$8,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Lane County Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

Note 9: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$307,769 and \$321,497 for the years ending December 31, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of \$241,016 and \$203,966 for the years ending December 31, 2019 and 2018, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 10: Pension Plans

The Hospital maintains a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who are at least 18 years of age and have completed one year of service. Employer and mandated employee contributions are computed at the rate of 2% of annual compensation for all employees. The Hospital also makes supplemental contributions up to an additional 4% of the annual compensation that eligible employees voluntarily defers into the additional defined contribution plan as described below. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$111,745 and \$111,745 during 2019 and \$102,224 and \$102,224 during 2018, respectively. Benefits start vesting immediately with 100% vesting after five years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled \$44,617 and \$44,691 during 2019 and 2018, respectively. The plan year begins on January 1 and ends December 31.

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Notes to Financial Statements
December 31, 2019 and 2018

Note 11: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2019 and 2018, were \$470,529 and \$463,355, respectively. Amounts due to GPHA at December 31, 2019 and 2018, totaled \$37,463 and \$34,376, respectively.

Note 12: GPHA Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No insurance assessments were necessary for 2019 and 2018.

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Note 13: Future Change in Accounting Principle

Leases

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.